

US Weekly Flash

Highlights

- **Fedspeak Mixed Leading up to June FOMC Meeting**

- The latest speeches from the Federal Reserve suggest mixed responses to extremely weak labor market data. Charles Evans, the Chicago Fed President, stands on the dovish end of the spectrum calling for more immediate accommodation, although he is not currently in a voting position for the FOMC. Janet Yellen, Vice Chairman of the Fed, was less adamant about immediate intervention but noted that preventative measures have become more appropriate.
- James Bullard, the St. Louis Fed President, has reasserted the Fed's statement released prior to the employment report that the data have not yet significantly changed their outlook on the economic recovery. Bullard argues that the Fed still has time to wait a bit more before deciding on further action. In regards to Europe, Bullard noted that "This is a problem for Europe and it has to be solved by Europeans, so I don't think the Fed should get involved. U.S. banks are much better prepared for a possible financial meltdown in Europe than they were a few years ago."
- Ben Bernanke's speech to Congress gave little details about whether or not we should expect any accommodative action in the next meeting. He confirmed the Fed's previous statement that QE is still on the table as an option and that they are ready to adjust the balance sheet if necessary. In addition, Bernanke mentioned that long-term rates could increase before 2014 if the economy returns to normal.
- Data released since the last FOMC meeting suggest an increased probability of more immediate Fed action. The most likely scenario would be an extension of Operation Twist, which is scheduled to expire at the end of this month, since it would be easy to communicate and would not change the amount of liquidity in the market. This would have a small impact on the rates and economic activity but could be a tailwind to financial markets since the policy action would indicate that the Fed is ready to act whenever it is needed. With 10-year rates at all-time lows, there will be difficulties in stimulating matters further unless the Fed gets creative.

- **Trade and Consumer Credit Data Support Slowing Activity in 2Q12**

- The international trade balance narrowed slightly to \$50.1bn in April from \$52.6bn in the previous month. Slowing exports, which declined 0.8% for the first time in five months, may finally be showing some impact from the European crisis. Businesses may also be cutting back, with imports down 1.7% on account of a sharp drop in capital goods excluding autos. Although exports did decline, the slight improvement in the trade balance should have a positive impact on GDP growth in 2Q12.
- Seasonally-adjusted consumer credit increased \$6.5bn in April, a significantly slower pace compared to the previous few months. Nonrevolving credit growth accelerated slightly to \$10bn, while revolving declined \$3.4bn for the first time in three months. Benchmark revisions dragged down data for March, from \$21.4bn to \$12.4bn, mostly on the nonrevolving side. Strength in student loans continues to drive the headline figure, with government credit up \$6.1bn on a non-seasonally adjusted (NSA) basis. Outside of this component, nonrevolving credit has been flat throughout the recovery period and hints at a less-than-encouraging view of consumer activity.

Week Ahead

Retail Sales, Ex Auto (May, Wednesday 8:30 ET)

Forecast: -0.1%, 0.0%

Consensus: -0.2%, 0.0%

Previous: 0.1%, 0.1%

Retail sales growth decelerated significantly in April and is expected to slow once again in May. Auto sales for the month dropped 4.0% to the lowest annual rate of the year, while falling gasoline prices should again weigh on the headline figure. While easing at gas pumps may have encouraged increased discretionary spending for May, consumer confidence reports were mixed. Weekly reports of retail sales have noted significant weakness compared to April, with chain store sales data suggesting minimal improvement for the core figure. In general, we expect that European worries and weakening employment conditions limited consumer willingness to spend in May.

Consumer Price Index, Core (May, Thursday 8:30 ET)

Forecast: -0.2%, 0.2%

Consensus: -0.2%, 0.2%

Previous: 0.0%, 0.2%

Consumer price inflation is expected to ease again in May on account of further declines in energy prices. In particular, crude oil prices have dropped significantly from April's levels, while other commodity price indices have fallen less dramatically. Natural gas prices for the month increased 30%, which may partially offset some of the other energy price declines. Weakening consumer activity may limit upward pressure on core prices, and overall consumer inflation expectations are down for one and five-years ahead. Still, food, medical care, and shelter prices continue to increase at a steady pace.

Empire State Manufacturing Survey (June, Friday 8:30 ET)

Forecast: 13.00

Consensus: 13.50

Previous: 17.09

The Empire State Manufacturing Index is expected to decline slightly in June but remain well above the expansionary threshold. The index jumped significantly in May despite mixed reports from other manufacturing data. Production and new orders rebounded from slowing in the previous months, though the trends may decelerate again slightly on account of lingering economic uncertainties. Although overall nonfarm payroll growth has been extremely weak in recent months, the employment component of the index continues to indicate strength in hiring for the manufacturing sector.

Industrial Production (May, Friday 9:15 ET)

Forecast: 0.2%

Consensus: 0.1%

Previous: 1.1%

Industrial production rebounded significantly in April following a contraction in the previous month. For May, we expect that output will continue to expand but at a much slower pace. Utilities output, which drove growth in April, appears to be returning to a healthy trend for the spring and summer months. The mining sector will likely continue to recover from two months of declines in 1Q12, while manufacturing growth should remain positive despite mixed regional reports on the sector. Weak employment growth in the various sectors suggests that activity in May was modest at best.

Market Impact

Markets will be looking closely at this week's data for any signs that may indicate whether or not the Fed will announce further monetary interventions in the upcoming meeting. Despite the expected decline in inflation, levels should remain within the Fed's targets and are unlikely to directly influence any action at this point. However, an unexpected drop in manufacturing activity, along with slowing retail sales consumer activity, may be more of a significant factor in judging how slowly the economy is growing.

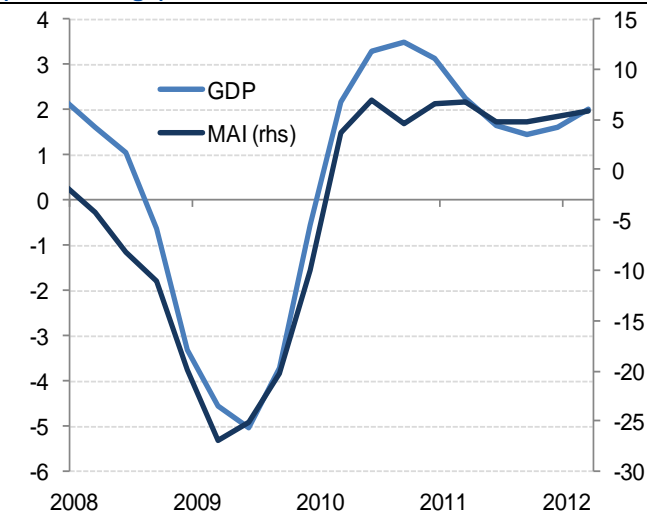
Economic Trends

Graph 3
BBVA US Weekly Activity Index
(3 month % change)



Source: BBVA Research

Graph 4
BBVA US Monthly Activity Index & Real GDP
(4Q % change)



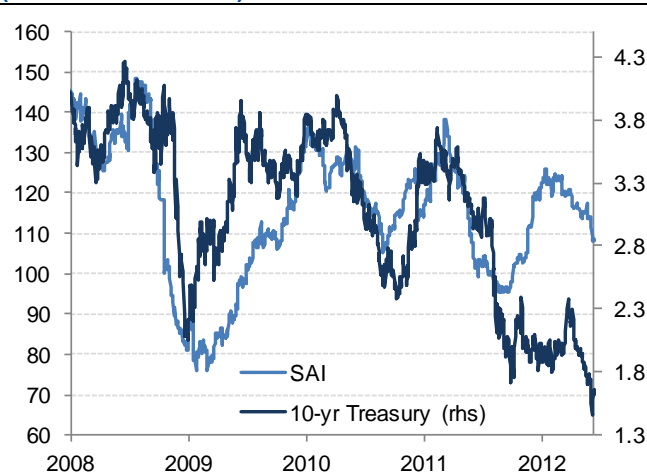
Source: BBVA Research & BEA

Graph 5
BBVA US Surprise Inflation Index
(Index 2009=100)



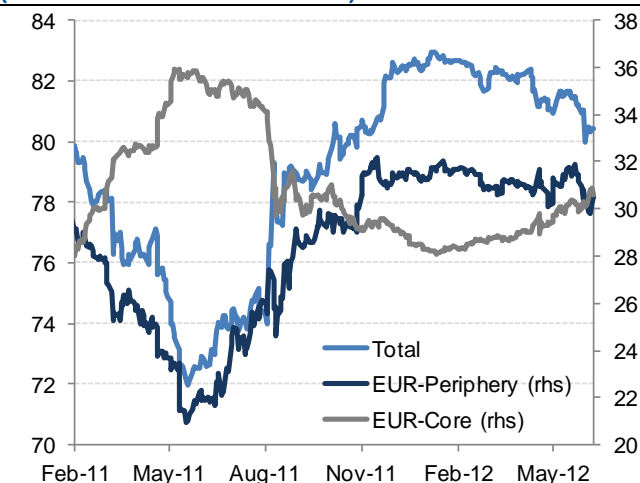
Source: BBVA Research

Graph 6
BBVA US Surprise Activity Index & 10-yr Treasury
(Index 2009=100 & %)



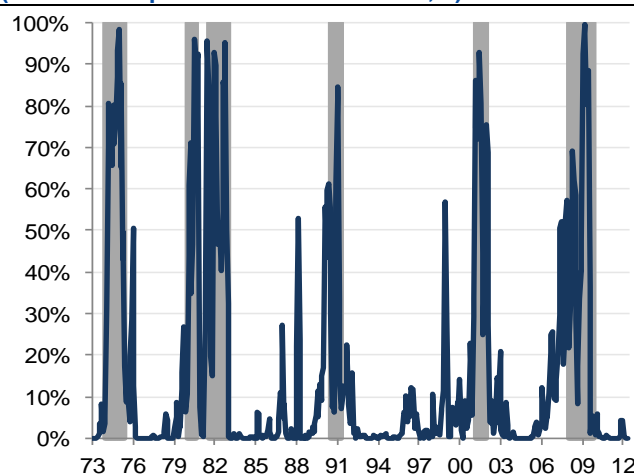
Source: Bloomberg & BBVA Research

Graph 7
Equity Spillover Impact on US
(% Real Return Co-Movements)



Source: BBVA Research

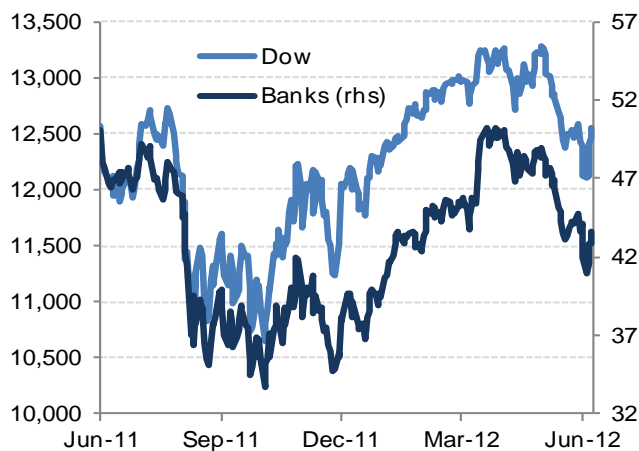
Graph 8
BBVA US Recession Probability Model
(Recession episodes in shaded areas, %)



Source: BBVA Research

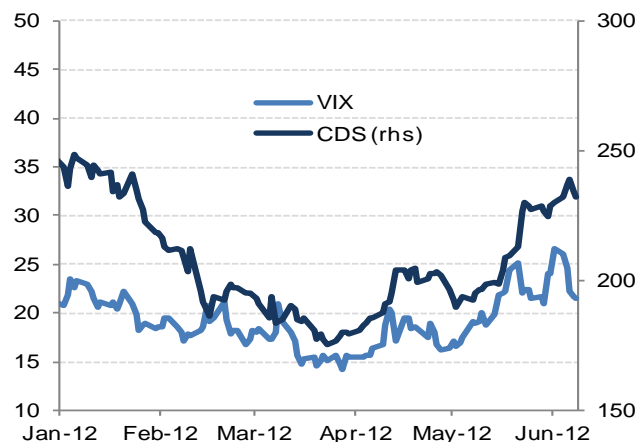
Financial Markets

Graph 9
Stocks
(Index, KBW)



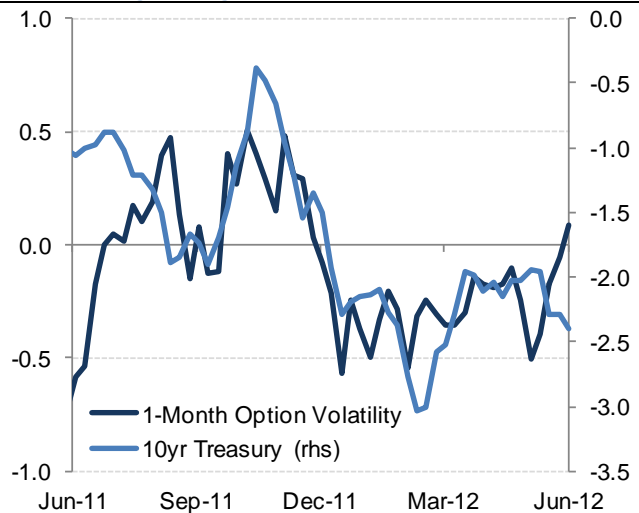
Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS
(Indices)



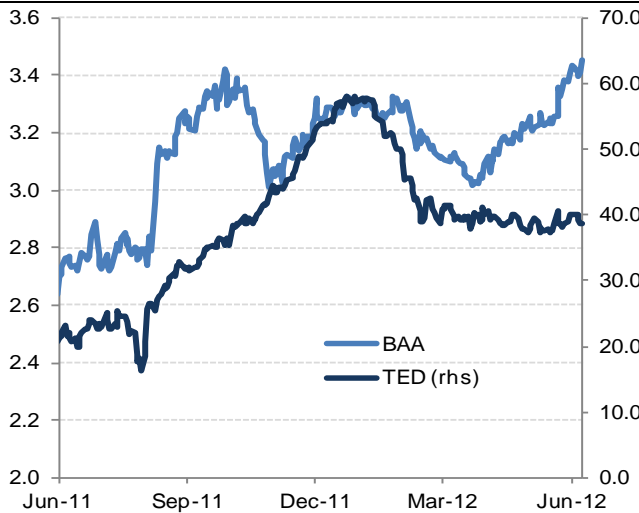
Source: Bloomberg & BBVA Research

Graph 11
Option Volatility & Real Treasury
(52-week avg. change)



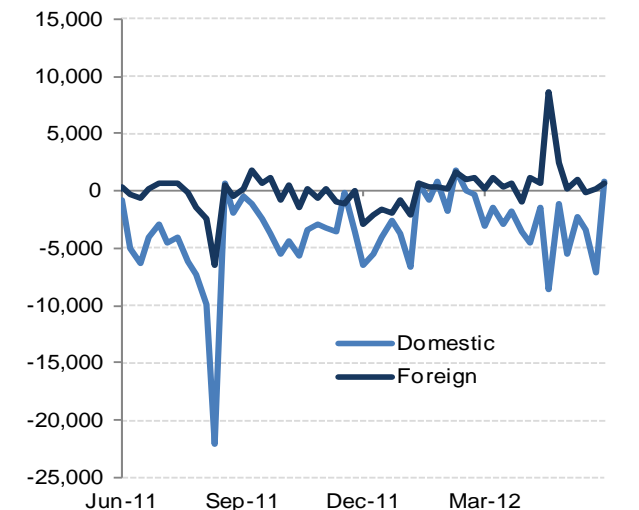
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads
(%)



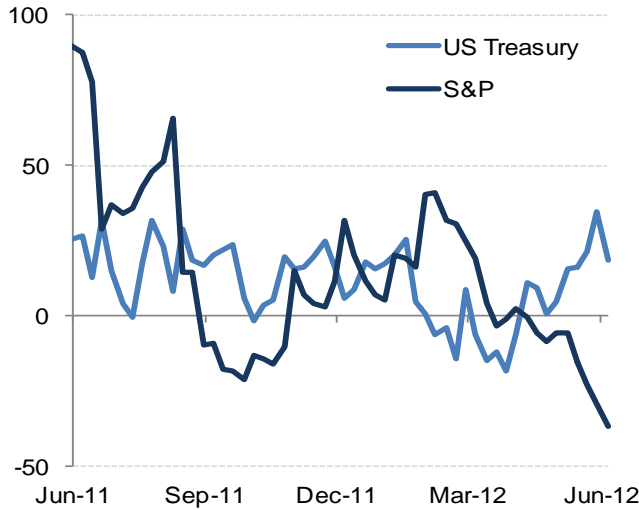
Source: Bloomberg & BBVA Research

Graph 13
Long-Term Mutual Fund Flows
(US\$Mn)



Source: Haver Analytics & BBVA Research

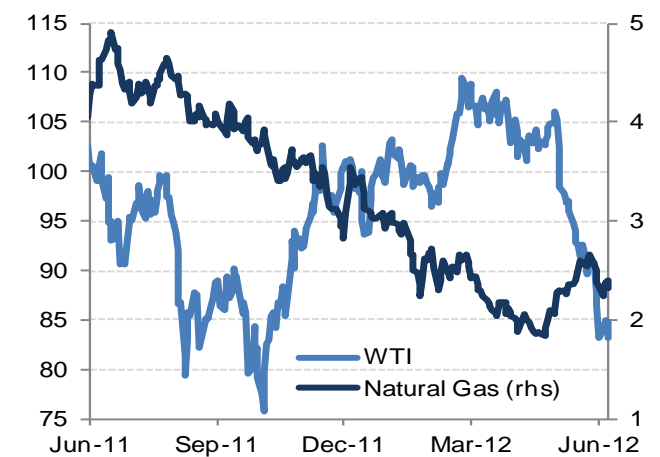
Graph 14
Total Reportable Short & Long Positions
(Short-Long, K)



Source: Haver Analytics & BBVA Research

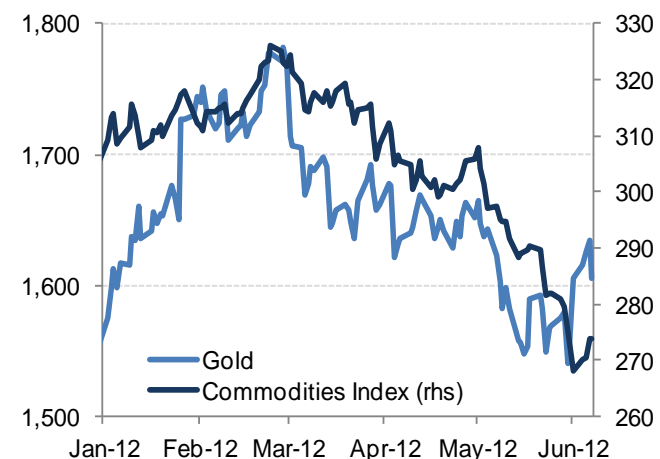
Financial Markets

Graph 15
Commodities
(Dpb & DpMMBtu)



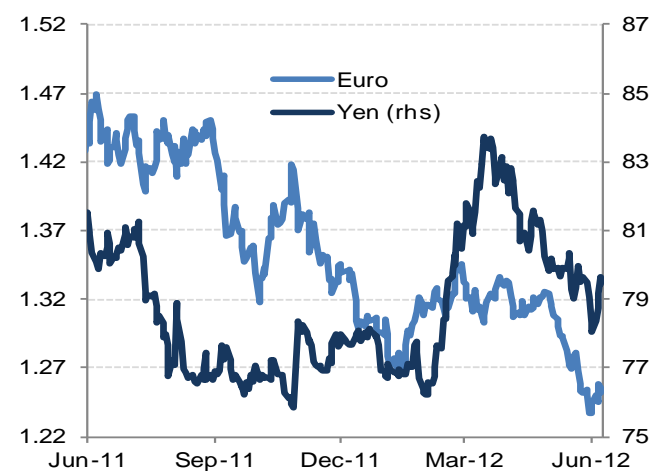
Source: Bloomberg & BBVA Research

Graph 16
Gold & Commodities
(US\$ & Index)



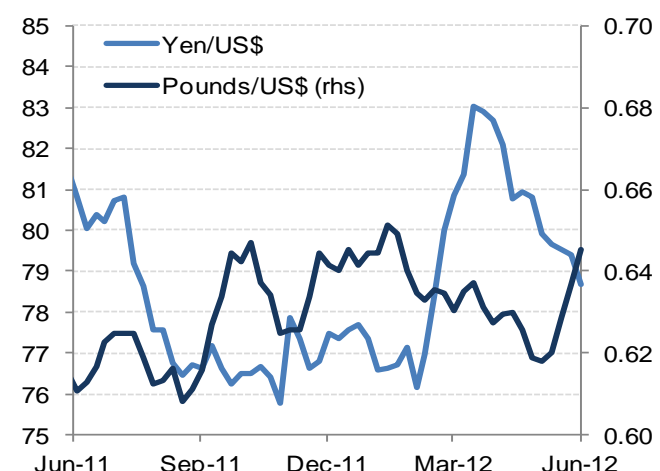
Source: Haver Analytics & BBVA Research

Graph 17
Currencies
(Dpe & Ypd)



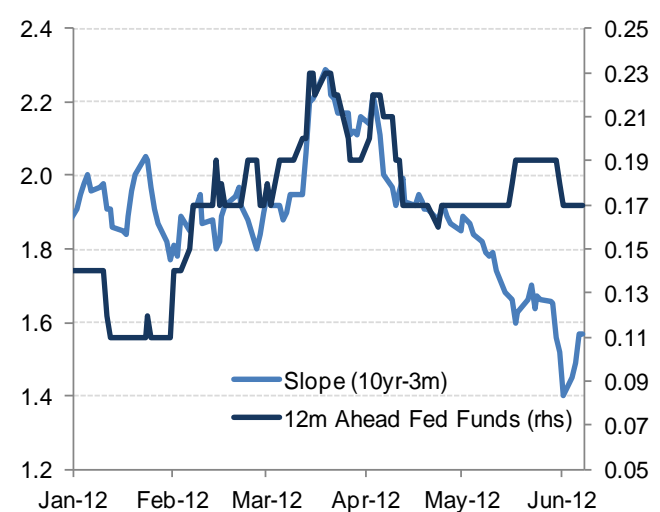
Source: Bloomberg & BBVA Research

Graph 18
6-Month Forward Exchange Rates
(Yen & Pound / US\$)



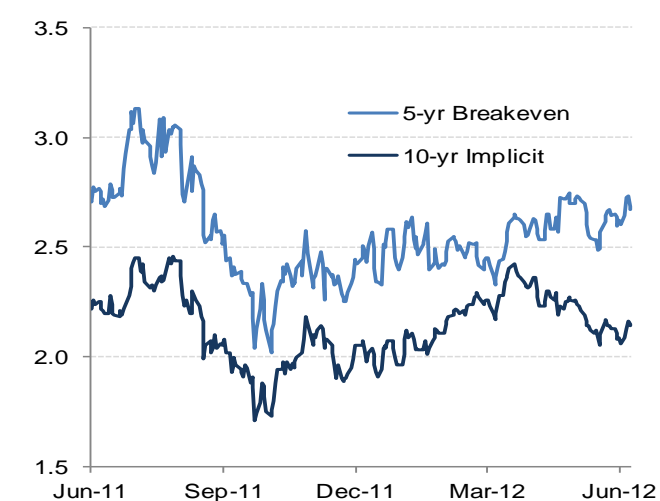
Source: Haver Analytics & BBVA Research

Graph 19
Fed Futures & Yield Curve Slope
(% & 10year-3month)



Source: Haver Analytics & BBVA Research

Graph 20
Inflation Expectations
(%)



Source: Bloomberg & BBVA Research

Interest Rates

Table 1

Key Interest Rates (%)

	Last	Week ago	4-Weeks ago	Year ago
Prime Rate	3.25	3.25	3.25	3.25
Credit Card (variable)	14.10	14.10	14.10	13.73
New Auto (36-months)	3.09	3.09	3.13	3.70
Heloc Loan 30K	5.56	5.53	5.51	5.50
5/1 ARM*	2.84	2.84	2.81	3.28
15-year Fixed Mortgage *	2.94	2.97	3.05	3.68
30-year Fixed Mortgage *	3.67	3.75	3.83	4.49
Money Market	0.72	0.72	0.72	0.61
2-year CD	0.90	0.90	0.90	1.09

*Freddie Mac National Mortgage Homeowner Commitment US
Source: Bloomberg & BBVA Research

Table 1

Key Interest Rates (%)

	Last	Week ago	4-Weeks ago	Year ago
1M Fed	0.16	0.16	0.15	0.09
3M Libor	0.47	0.47	0.47	0.25
6M Libor	0.74	0.74	0.73	0.40
12M Libor	1.07	1.07	1.05	0.72
2yr Sw ap	0.58	0.63	0.61	0.60
5yr Sw ap	1.02	0.99	1.10	1.80
10Yr Sw ap	1.83	1.67	1.98	3.08
30yr Sw ap	2.52	2.28	2.73	3.93
7day CP	0.24	0.24	0.18	0.13
30day CP	0.34	0.35	0.31	0.17
60day CP	0.42	0.43	0.40	0.19
90day CP	0.48	0.46	0.44	0.28

Source: Bloomberg & BBVA Research

Quote of the Week

Charles Evans, Federal Reserve Bank of Chicago President
Fed's Evans Redoubles Push for More Easing
5 June 2012

"With huge resource gaps, slow growth and low inflation, the economic circumstances warrant extremely strong accommodation. The damage intensifies the longer that unemployment remains high. Failure to act aggressively now will lower the capacity of the economy for many years to come."

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
12-Jun	Import Prices (MoM)	MAY	-0.50%	-1.00%	-0.50%
12-Jun	Export Prices (MoM)	MAY	0.00%	--	0.40%
13-Jun	Producer Price Index (MoM)	MAY	-0.40%	-0.60%	-0.20%
13-Jun	PPI Ex Food & Energy (MoM)	MAY	0.10%	0.20%	0.20%
13-Jun	Advance Retail Sales	MAY	-0.10%	-0.20%	0.10%
13-Jun	Retail Sales Less Autos	MAY	0.00%	0.00%	0.10%
13-Jun	Business Inventories	APR	0.20%	0.30%	0.30%
14-Jun	Consumer Price Index (MoM)	MAY	-0.20%	-0.20%	0.00%
14-Jun	CPI Ex Food & Energy (MoM)	MAY	0.20%	0.20%	0.20%
14-Jun	Initial Jobless Claims	9-Jun	375K	375K	377K
14-Jun	Continuing Claims	2-Jun	3275K	3270K	3293K
15-Jun	Empire State Manufacturing Survey	JUNE	13.00	13.50	17.09
15-Jun	Industrial Production	MAY	0.20%	0.10%	1.10%
15-Jun	Capacity Utilization	MAY	79.20%	79.20%	79.20%
15-Jun	U. Michigan Consumer Sentiment	JUNE	77.00	77.50	79.30

Forecasts

	2011	2012	2013	2014
Real GDP (% SAAR)	1.7	2.3	2.2	2.5
CPI (YoY %)	3.2	2.5	2.2	2.4
CPI Core (YoY %)	1.7	1.9	1.8	1.9
Unemployment Rate (%)	9.0	8.2	7.8	7.4
Fed Target Rate (eop, %)	0.25	0.25	0.25	0.50
10Yr Treasury (eop, % Yield)	2.0	2.2	2.7	3.1
US Dollar/ Euro (eop)	1.31	1.25	1.31	1.31

Note: Bold numbers reflect actual data

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